FDIC State Profile

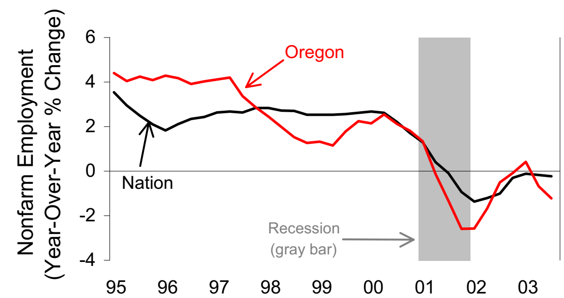
Winter 2003

Oregon

Nonfarm employment in Oregon decreased 1.4 percent in the year ending third quarter 2003, undermined by weakness in the government and high-tech sectors.

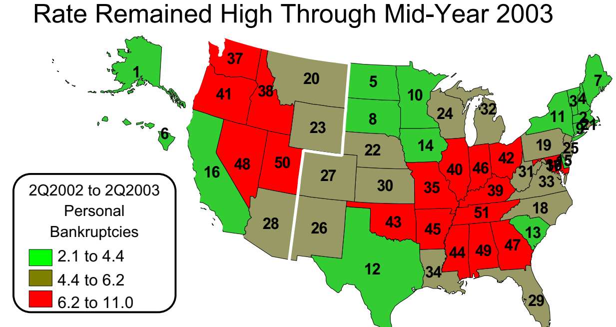
- As of third quarter 2003, Oregon experienced year-over-year employment losses in every sector but FIRE, education and health services, and other services.[1]
- The manufacturing sector experienced the largest employment loss in Oregon, decreasing by 3.1 percent year-over-year as of third quarter 2003, and losing 6,500 jobs. Within manufacturing, the computers and electronic products sub-sector experienced the largest employment decrease, losing 3,100 jobs.
- The government sector produced significant employment losses in Oregon, decreasing by 2.4 percent year-over-year as of June 2003, a loss of 6,100 jobs. State and local government jobs accounted for most of these losses. During the fiscal year ending June 30, 2002, state tax collections decreased by almost 13 percent, resulting from the impact of employment losses on the state's personal income tax collections.
- Employment in the trade, transportation, and utilities sector decreased by 1.4 percent year-over-year as of third quarter 2003, losing 4,300 jobs. Employment losses were concentrated mainly in the transportation, and warehousing, clothing retail, and wholesale industries.
- In addition to persistent employment losses (see Chart 1), Oregon reported the highest unemployment rate in the nation at 7.6 percent as of third quarter 2003. Weakness in the manufacturing and trade/transportation/utilities sectors in the Portland-Vancouver Primary Metropolitan Statistical Area (PMSA) accounted for over 40 percent of the year-over-year job losses in the state as of third quarter 2003 and contributed significantly to that PMSA leading the state with an 8.2 percent unemployment rate.

Chart 1: Nonfarm Employment in Oregon Continues Downward Trend



Source: Bureau of Labor Statistics and National Bureau of Economic Research

Map 1: Oregon's Personal Bankruptcy Filing Rate Remained High Through Mid-Year 2003



Note: Population estimates for 2002 were used.
Source: U.S. Courts, and Bureau of Economic Analysis

Weak employment pressured personal bankruptcy rates in Oregon.

- The personal bankruptcy rate in Oregon was higher than that of 40 other states in the nation during the year ending second quarter of 2003 (see Map 1) and increased 5 percent when compared to the previous year.
- According to a PMI Mortgage Insurance Co. report, the ***Portland*** MSA ranked second out of 50 metropolitan areas for having a high probability of a home price decline, in part as a result of sluggish employment and slowing home price appreciation. This forecast is a concern, because low home price appreciation rates have been associated with higher foreclosure and bankruptcy rates.
- Reflecting the relatively high personal bankruptcy rates, consumer loan quality deteriorated somewhat during the 12 months ending June 2003. Established community institutions headquartered in Oregon reported a median annualized net consumer loan charge-off ratio increase from 0.20 percent to 0.58 percent from the second quarter of 2002 to the second quarter of 2003, which compares unfavorably to

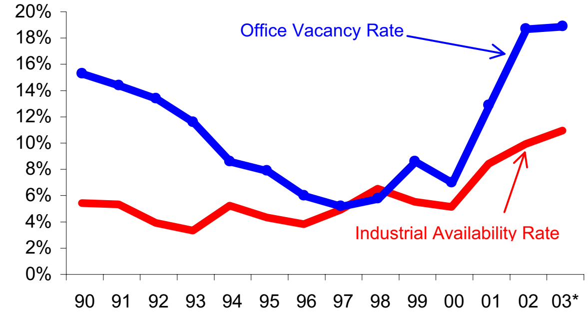
[1] FIRE: Finance, Insurance, and Real Estate

elsewhere in the nation where the past-due consumer loan ratio decreased from 0.28 percent to 0.27 percent over the same period.[2,3]

Declining demand for commercial real estate (CRE) and high CRE loan concentrations could challenge credit quality for many Oregon-based insured institutions.

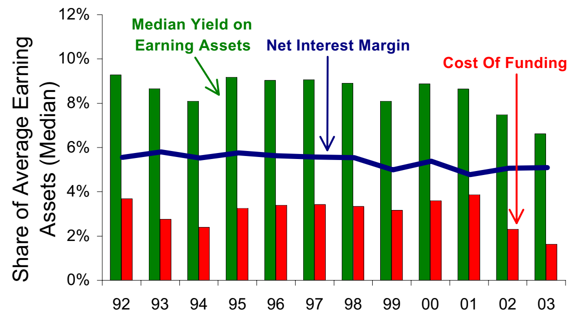
- According to Torto Wheaton Research (TWR), the office vacancy rate in the Portland MSA remained relatively steady at 19.0 percent as of third quarter 2003 (see Chart 2). Office market conditions deteriorated to the greatest extent in the ***Hillsboro***, ***Clackamas***, ***Eastside***, ***Beaverton***, and ***Vancouver*** areas, submarkets of Portland. In those submarkets vacancy rates exceeded 25 percent for third quarter 2003. TWR also reported an increase in the industrial availability rate to 11.2 percent as of third quarter 2003, up from 9.9 percent one year earlier.
- Deteriorating market conditions may have contributed to a year-over-year increase in CRE loan delinquencies among established community institutions headquartered in the Portland-Vancouver, Washington PMSA.[4] The median past-due CRE loan ratio reported by these institutions rose from 0.54 percent to 0.88 percent. Nearly two-thirds of insured institutions headquartered in the state held CRE loan exposures exceeding 300 percent of Tier 1 capital. Nationwide, approximately only one-quarter of insured institutions reported similarly high concentrations. Exposures to construction and development (C&D) loans contributed to the trend. Institutions based in Oregon reported a second quarter 2003 median C&D loan-to-Tier 1 capital ratio of 81 percent, nearly four times the level reported by banks and thrifts nationwide. However, Oregon-based insured institutions reported a median Tier 1 leverage capital ratio of 10.25 percent as of June 30, 2003, compared to 9.16 percent for insured institutions nationally.

Chart 2: Vacancy Rates in Portland Remained Higher Than 1990 Levels



Source: Torto Wheaton Research (*year-to-date through third quarter 2003)

Chart 3: Funding Costs Sank During 2002 Among Oregon-Based Insured Institutions



Source: Oregon Bank and Thrift Call Reports (June of each year)

Significant declines in funding costs contributed to an improvement in insured institution earnings.

- Oregon-based insured institutions reported a median return on average assets ratio (ROA) of 1.32 percent as of June 30, 2003, up from 1.20 percent one year earlier, and significantly above the 1.06 percent median ROA reported by all insured institutions in the nation.
- Although declining interest rates initially undermined net interest margins in 2001 as liabilities were slow to re-price, funding costs declined dramatically during 2002 and 2003, contributing to improved margins (see Chart 3) year-over-year in second quarter 2002 and second quarter 2003. The median interest expense to average earning assets ratio declined to 1.63 percent as of June 30, 2003, its lowest level in 10 years, and a substantial decline from the 2.31 percent one year earlier. An increase in median non-interest income also favorably influenced profitability.

[2] Consumer loans include credit cards, automobile loans, and other loans to individuals not secured by real estate.

[3] Established community institutions include insured institutions in operation more than three years, with less than $1 billion in total assets, and exclude specialty institutions.

[4] CRE loans include mortgages secured by nonfarm-nonresidential, multifamily, and construction projects.

Oregon at a Glance

General Information	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Institutions (#)	38	37	47	49	51
Total Assets (in thousands)	20,989,468	20,970,270	19,124,020	17,361,890	38,726,312
New Institutions (# < 3 years)	4	3	8	10	8
New Institutions (# < 9 years)	13	11	16	16	14

Capital	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Tier 1 Leverage (median)	10.25	8.79	9.08	9.74	9.48

Asset Quality	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Past-Due and Nonaccrual (median %)	0.91%	0.94%	0.98%	0.83%	1.00%
Past-Due and Nonaccrual ≥ 5%	1	2	5	6	7
ALLL/Total Loans (median %)	1.22%	1.23%	1.12%	1.10%	1.08%
ALLL/Noncurrent Loans (median multiple)	2.17	4.34	2.61	2.23	2.32
Net Loan Losses/Loans (aggregate)	0.16%	0.30%	0.14%	0.15%	0.17%

Earnings	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Unprofitable Institutions (#)	3	2	2	5	8
Percent Unprofitable	7.89%	5.41%	4.26%	10.20%	15.69%
Return on Assets (median %)	1.32	1.20	1.18	1.02	1.28
25th Percentile	0.85	0.94	0.87	0.59	0.46
Net Interest Margin (median %)	5.00%	4.98%	4.69%	5.30%	4.90%
Yield on Earning Assets (median)	6.62%	7.49%	8.64%	8.88%	8.09%
Cost of Funding Earning Assets (median)	1.63%	2.31%	3.88%	3.60%	3.16%
Provisions to Avg. Assets (median)	0.22%	0.19%	0.20%	0.20%	0.15%
Noninterest Income to Avg. Assets (median)	1.05%	0.90%	0.82%	0.76%	0.83%
Overhead to Avg. Assets (median)	3.64%	3.40%	3.62%	3.93%	3.70%

Liquidity/Sensitivity	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Loans to Deposits (median %)	84.65%	90.90%	85.37%	85.63%	77.60%
Loans to Assets (median %)	71.20%	75.76%	72.22%	69.62%	65.32%
Brokered Deposits (# of institutions)	11	12	8	9	8
Bro. Deps./Assets (median for above inst.)	3.74%	4.08%	4.05%	2.39%	1.72%
Noncore Funding to Assets (median)	15.97%	17.23%	16.44%	16.29%	11.82%
Core Funding to Assets (median)	70.56%	71.84%	70.52%	71.66%	74.90%

Bank Class	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
State Nonmember	28	26	29	31	31
National	3	3	4	4	4
State Member	3	3	9	9	9
S&L	3	3	3	3	3
Savings Bank	1	2	2	2	4
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	15	7,199,580	39.47%	34.30%
Portland-Vancouver OR-WA PMSA	11	11,159,488	28.95%	53.17%
Salem OR PMSA	5	484,553	13.16%	2.31%
Eugene-Springfield OR	4	1,236,584	10.53%	5.89%
Medford-Ashland OR	2	590,935	5.26%	2.82%
Corvalis OR	1	318,328	2.63%	1.52%